

**Internal Revenue Service**

Regional  
Commissioner


Western Region





**Department of the Treasury**

Address any reply to Appellate Division  
Two Embarcadero Center, Suite 800  
San Francisco, Calif. 94111

Person to Contact:


  
Telephone Number:

  
Refer Reply to:

  
Date NOV 24 1981

Gentlemen:

This is a final adverse determination as to your exempt status under section 501(c)(7) of the Internal Revenue Code.

Our adverse determination was based on your  activities, a monthly roping event open to the general public. Substantial portion of your income is derived from nonmembers.

You are required to file Federal income tax returns on Form 1120 beginning 1978. You should file these returns with your key District Director, EP/EO Division, within 30 days from the date of this letter, unless a request for extension of time is granted.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

Associate Chief

[REDACTED]

Michael J. Fields

[REDACTED]

EP/EO:1

[REDACTED]

17 FEB 1981

Gentlemen:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code of 1954.

The information submitted discloses that you were incorporated under the nonprofit corporation laws of the State of [REDACTED] on [REDACTED].

Your corporation's purpose as stated in Article II A. of its Articles of Incorporation is to operate a social club.

Your corporation is a membership organization. Article II of your bylaws sets forth the classes, rights and obligations of memberships.

Your corporation's activities consist of sponsoring a Junior Rodeo, a monthly Jackpot roping event open to the public and weekly roping for members.

Your corporation's activities have been supported by membership dues, event entry fees and a variety of other sources. Income has been derived from members and nonmembers. Although proper records have not been maintained, evidence suggests that nonmember income has been substantial. You have estimated that in each tax year [REDACTED] and [REDACTED] nonmember income has been approximately one-third of total income.

Section 501(c) of the Internal Revenue Code of 1954 describes certain organizations exempt from income tax under section 501(c) and reads, in part, as follows:

"(7) Clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Regs. 1.501(c)(7) - 1(a) provide that exemption under IRC 501(c)(7) extends to social and recreational clubs which are supported solely by membership fees, dues and assessments. If income from nonmember sources is substantial or continues for a long period of time, the conclusion is justified that the organization is not operated exclusively for nonprofit purposes.

Revenue Procedure 71-17, 1971-1 C.B. 683 provides that a club exempt under section 501(c)(7) must maintain adequate records to substantiate member and nonmember income.

You have stated that your corporation has derived substantial amounts of income from nonmembers and that it has not complied with the record keeping requirements of Rev. Proc. 71-17.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(7) of the Code. You are required to file income tax returns annually with your district director.

You have the right to protest this determination if you believe it is incorrect. Protest instructions are contained in Publication 992 enclosed.

If we do not hear from you within the time specified, this letter will become our final determination in this matter.

If you agree to the adverse action shown above, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action, within ten days of this letter. You should retain a copy for your record.

Sincerely,

District Director

Enclosures:

Publication: 872

Form: 6018

Form **6018**  
(August 1979)

Department of the Treasury-Internal Revenue Service  
**Consent to Proposed Adverse Action**  
(All references are to the Internal Revenue Code)

Prepare In  
Duplicate

Case Number

Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter

17 FEB 1981

Name of Organization or Plan and Address

I consent to the proposed adverse action relative to the above organization or plan, as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc.; or Section 7476, Declaratory Judgments Relating to Qualification of Certain Retirement Plans, applies, I have the right to protest the proposed adverse action.

**NATURE OF ADVERSE ACTION**

- ☒ Denial of exemption
- ☐ Revocation of exemption, effective
- ☐ Modification of exempt status, effective
- ☐ Classification as a private foundation (section 509(a)), effective
- ☐ Classification as a non-operating foundation (section 4942(j)(3)), effective
- ☐ Non-qualification under section 401(a)
- ☐ Classification as an organization described in section 509(a)( ), effective
- ☐ Classification as an organization described in section 170(b)(1)(A)( ), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428 or 7476.

(Signature instructions are on the back of this form.)

Name of Organization or Plan

Signature and Title

Date

Signature and Title

Date